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Silicon Valley fends off 'cloak and data'

First of two parts.

By Bill Gertz
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SUNNYVALE, Calif. — A research engineer, engaged in top secret work for Ford Aerospace and Communications Corp., was dining alone at a restaurant during a recent overseas business trip when a European approached the table and introduced himself in flawless English.

"He just sat down, struck up a conversation and very pointedly didn't waste any time [describing] the type business trip he was on and the type of work he was involved in," said Jerry E. Guibord, security manager at Ford Aerospace, a major Silicon Valley defense contractor.

The engineer, an experienced and wary traveler with security clearance, suspected that an intelligence agent was attempting to recruit him. He reported the incident to Mr. Guibord.

Later, Mr. Guibord said, it was determined that the man was not the salesman he had portrayed himself to be, but a suspected spy for one of the Soviet intelligence services, the KGB or its military counterpart, the GRU.

The case was one of six reported attempts to recruit Ford Aerospace employees within the last four years, Mr. Guibord said. It highlights the growing problem of espionage targeted against Silicon Valley, the largest concentration of high-tech industry in the United States.

The Central Intelligence Agency, in a report issued earlier this month, provides the most detailed picture to date of how the Soviet Union targets high-tech companies, many in California, for everything from microelectronics production equipment to the technology used in maneuvering missile warheads.

The Soviets scored a major success when they "reverse-engineered" their own version of the powerful 8080A 8-bit computer microchip first developed by Silicon Valley's largest chip manufacturer, Intel Corp., according to the CIA.

They even tried to buy a bank near the valley in order to collect financial information on Silicon Valley residents that could be used to recruit high-tech workers, according to Miles Costik, a private strategic-trade expert. The deal fell through when Moscow's role in providing $70 million in credit became public.

Silicon Valley is a string of suburban enclaves located along a 30-mile strip from the south end of San Francisco Bay to San Jose. Its more than 1,500 high-technology companies represent the largest concentration of electronics and computer manufacturers in the United States.

Ten of the top 100 U.S. defense contractors listed in the CIA report as primary Soviet targets operate high-tech plants in Silicon Valley, including Ford Aerospace, Hewlett Packard Co., ITT Corp., Teledyne Inc. and Gould Electronics Inc.

Fifteen more high-tech defense contractors on the Soviet target list are located a few hundred miles south in the Los Angeles area.

Soviet-backed military and industrial espionage continues to be a growing problem for the region, according to federal officials and private security experts.

Thirty years ago, FBI agents had an easier time identifying Soviet bloc spies by their heavy Slavic accents or ill-fitting suits. Now the Soviets employ a wide range of highly educated people cloaked as Soviet bloc exchange students, visiting academicians, trade and scientific delegates, legal immigrants and "illegal" agents disguised as nationals of countries friendly to the United States, the security experts said.

"They don't just come [here] under the guise of Soviet students or Soviet nationals," Mr. Guibord said in an interview at the Ford Aerospace plant here. "They come under the guise of representatives of some other country that is not necessarily friendly to the Soviet Union.

"That's the way they do their job here and they do it very effectively, from the many cases we have," he said.

Mr. Guibord said Ford's combined 5,700 employees in Sunnyvale and Palo Alto constantly are made aware of espionage threats through the corporation's security education programs. The programs feature film presentations on computer security — one film is called "Cloak and Data" — and lectures on Soviet recruiting tactics and KGB technology "wish lists."

Because it conducts research on top secret communications used in nuclear and conventional warfare, Ford Aerospace is regarded as a key espionage target of the Soviet Union, said Mr. Guibord.

The CIA's new report on Soviet industrial espionage lists Ford Aerospace as the 22nd most important technology target. General Electric Co., Boeing Co. and Lockeed Corp. were listed as the top three, in that order.

The West Coast spy attack is carried out by the Soviet KGB, the GRU and a host of Soviet bloc surrogate intelligence, trade and scientific agencies, according to intelligence sources.

The CIA also has identified three major Soviet agencies that are used to collect technology and data from open sources through visits to the West: the Soviet Academy of Sciences, the State Committee for Science